

Costs exceeding this limit may be approved by the Department on a facility by facility basis upon demonstration by the facility that additional costs are necessary for the operation of the facility.

371. COMPENSATION OF OWNERS

A. PRINCIPLE. A reasonable allowance of compensation for services of owners is an allowable cost, provided the services are actually performed and are a necessary function.

B. DEFINITIONS

1. Reasonableness. Reasonableness requires that the compensation allowance:

a. Be such an amount as would ordinarily be paid for comparable services by comparable facilities.

b. Depend upon the facts and circumstances of each case.

c. Be pertinent to the operation and sound conduct of the facility.

2. Necessary. Necessary requires that the function be such that had the owner not rendered the services, the facility would have had to employ another person to perform the services.

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3. Owner. An owner under this section is defined as any person and related family members (as specified below) with a cumulative ownership interest of 5 percent or more. Members of the immediate family of an owner, including husband, wife, father, mother, brothers, sisters, sons, daughters, aunts, uncles, and in-laws, shall be treated as owners for the purpose of compensation.

4. Compensation. Compensation means the total benefit received by the owner, including but not limited to; salary amounts paid for managerial, administrative, professional and other service; amounts paid by the facility for the personal benefit of the owner; the cost of assets and services received from the facility and deferred compensation.

C. APPLICATION. The cost of full-time owner-employees may be included as an allowable cost if the compensation is reasonably comparable to compensation for similar positions in the industry, but may not exceed the applicable compensation limit for an owner-administrator.

Department for Medicaid Services
Cost Principles

Nursing Facilities

The compensation of part-time owner-employees performing managerial type functions is allowable to the extent that the compensation does not exceed the percent of time worked times 80 percent of the applicable compensation limits for an owner-administrator.

Full-time owner-administrators and full-time owner-employees who perform non-managerial functions in facilities other than the facility with which they are primarily associated shall, for Program purposes, be limited to reasonable compensation for not more than fourteen hours per week in addition to the salary in the facility with which they are primarily associated. To be considered reasonable compensation, the owner shall prove performance of a necessary function and be able to document the time claimed for compensation. When managerial functions are performed in a non-primary facility by the full-time owner-administrator or full-time owner-employee of another facility, the cost of such services shall not be allowed for purposes of the Program.

Compensation for services requiring a licensed or certified professional performed on an intermittent basis shall not be considered a part of compensation, nor shall it be limited to the application of the

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owner-administrator compensation schedule, if the professional services (e.g., legal services) would have necessitated the procurement of another person to perform the services.

- D. COMPENSATION LIMITATION. Compensation for an owner-administrator shall be limited based on the total licensed beds of the facility in accordance with the following schedule:

LICENSED BEDS	MAXIMUM COMPENSATION
0 - 50	\$33,500
51 - 99	38,500
100 - 149	43,000
150 - 199	51,300
200+	52,600

This schedule shall be in effect for the period from July 1, 1991 through June 30, 1992.

These compensation maximums shall be increased on July 1 of each year by the Inflation Factor index for wages and salaries (Data Resources, Inc.). The Department shall utilize the moving average for the coming July 1 - June 30 fiscal year based on the latest inflation data available. The adjusted amounts shall be published annually in a reimbursement letter to all nursing facility providers.

Perquisites routinely provided to all employees and board of director's fees shall not be considered in applying owner's compensation limits.

E. OTHER REQUIREMENTS

1. Sole Proprietorships and Partnerships. The allowance of compensation for services of sole proprietors and partners is the amount determined to be the reasonable value of the services rendered (not to exceed the amount claimed for these services on the annual cost reports submitted by the facility). Such allowance is an allowable cost regardless of whether there is any actual distribution of profits or other payments to the owner. The operating profit (or loss) of the facility does not affect the allowance of compensation for the owner's services.
2. Corporations. To be includable in allowable costs, compensation for services rendered as an employee, officer, or director by a person owning stock in a corporate provider must be paid (by cash, negotiable instrument, or in-kind) during the cost reporting period in which the compensation is earned or within 75 days thereafter. If payment is not made

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during this time period, the unpaid compensation is not included in allowable costs, either in the period earned or in the period when actually paid. For this purpose, an instrument to be negotiable shall be in writing and signed, shall contain an unconditional promise or order to pay a certain sum of money on demand or at a fixed and determinable future time, and shall be payable to order or to bearer.

3. Accrued Expenses Payable. To be includable in allowable costs, an accrued expense payable to an officer, director, stockholder, organization or other party or parties having control shall be paid (by cash, negotiable instrument, or in-kind) during the cost reporting period in which it has been incurred or within 75 days thereafter. If payment is not made during this time period, the unpaid expense shall not be included in allowable costs, either in the period incurred or in the period when actually paid.

4. Definitions.

1. Control. Control exists where an individual or an organization has the ability, directly or indirectly, to influence, manage or direct the actions or policies of the provider regardless of ownership interest. When considering control by an individual or organization, the inclusive ownership definition, as stated in Section 111 of this manual shall be applied.
2. Negotiable Instrument. The negotiable instrument shall be in writing and signed, shall contain an unconditional promise or order to pay a certain sum of money on demand or at a fixed and determinable future time, and shall be payable to order or to bearer.

372. ADMINISTRATORS COMPENSATION

- A. PRINCIPLE. The reasonable cost of full-time nonowner administrators may be included as an allowable cost so long as it does not exceed the applicable compensation limit for an administrator.
- B. COMPENSATION LIMITATION. Compensation for an administrator shall be limited based on total licensed beds of the facility in accordance with the following schedule.

LICENSED BEDS	MAXIMUM COMPENSATION
0-50	\$46,800
51-99	52,750
100-149	59,000
150-199	70,600
200+	72,200

This schedule shall be in effect for the period from July 1, 1992 through June 30, 1993.

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These compensation maximums shall be increased on July 1 of each year by the Inflation Factor index for wages and salaries (Data Resources, Inc.). This adjustment shall be computed and communicated in the same manner as the adjustment to the owner-administrator compensation limits.

Perquisites routinely provided to all employees and the administrator shall not be considered a part of compensation.

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